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OFFICE OF  
INSURANCE COMMISSIONER 201 APR 26 P 3:00

**HEARINGS UNIT**

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Patricia D. Petersen  
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Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON  
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the  
Proposed Acquisition and Control of:

**NO. G 11-0074**

## ORDER APPROVING PROPOSED ACQUISITION AND CHANGE OF CONTROL

**CONTRACTORS BONDING AND INSURANCE COMPANY**, a Washington-domiciled privately held Property and Casualty Insurer,

by

RLI INSURANCE COMPANY,  
an Illinois-domiciled Property and Casualty  
Insurer,

Applicant.

**TO:** RLI Insurance Company  
9025 N. Lindbergh Drive  
Peoria, Illinois 61615  
ATTN: Jonathan E. Michael, Chairman & CEO

RLI Insurance Company  
9025 N. Lindbergh Drive  
Peoria, Illinois 61615  
ATTN: Daniel O. Kennedy, Vice President & General Counsel

Marc Tract, Esq.  
Katten Muchin Rosenman LLP  
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New York, New York 10022-2585

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**COPY TO:** Mike Kreidler, Washington State Insurance Commissioner  
Michael G. Watson, Chief Deputy Insurance Commissioner  
James T. Odiorne, Deputy Commissioner, Company Supervision Division  
Carol Sureau, Deputy Commissioner, Legal Affairs Division  
Charles Brown, Sr. Staff Attorney, Legal Affairs Division  
Ronald J. Pastuch, Holding Company Manager, Company Supervision Division  
Office of Insurance Commissioner  
PO Box 40255  
Olympia, WA 98504-0255

Pursuant to Chapter 48.04 RCW, Chapter 34.05 RCW, RCW 48.31B.015, and Chapter 284-18 WAC, and after notice to interested parties and persons (see notice detailed below), the above-entitled matter came on regularly for hearing before the Washington State Insurance Commissioner (Commissioner) commencing at 1:00 p.m. on April 20, 2011, in the Office of the Insurance Commissioner, 5000 Capitol Blvd., Tumwater, WA 98501. All persons to be affected by the above-entitled matter were given the right to be present at such hearing during the giving of testimony, and had reasonable opportunity to inspect all documentary evidence, to examine witnesses and present oral and written statements. The Applicant, RLI Insurance Company (RLI) was represented by attorneys Daniel O. Kennedy, its Vice President, General Counsel and Asst. Corporate Secretary; Marc M. Tract of Katten Muchin Rosenman LLP of New York (although he did not participate in the hearing itself), and Timothy J. Parker and Melvin Sorensen of Carney Badley Spellman in Seattle appeared as local counsel (although Mr. Sorensen did not appear at the hearing). Contractors Bonding and Insurance Company (CBIC) was represented by Jeremy C. Watson and Sean M. Keyvan of Sidley Austin in Chicago. The Insurance Commissioner (OIC) was represented by Charles Brown, Sr. Staff Attorney in the OIC's Legal Affairs Division. Others participating in the hearing were Michael J. Stone, President and Chief Operating Officer of RLI; Carol Denzer, Vice President – Integration of RLI; Robert Fitzpatrick Eland, CBIC's CFO, Co-Chief Operations Officer and Secretary of CBIC as well as one of its directors (and a director and the CFO, Sec. and Asst. Treasurer of Data and Staff Service Co. which is the parent company of CBIC, and who is also a director and the Secretary of several subsidiaries of Data and Staff Service

Co. other than CBIC); Robert M. Ogle, Treasurer of CBIC; and Ronald J. Pastuch, Holding Company Manager in the Commissioner's Supervision Division.

### **NATURE OF PROCEEDING**

On December 22, 2010, RLI Insurance Company (the "Applicant") filed a Statement Regarding the Proposed Acquisition of Control of a Domestic Insurer ("Form A") by and through Daniel O. Kennedy, its Vice President, General Counsel and Assistant Corporate Secretary and Marc M. Tract, Esq., requesting approval of its proposed acquisition of Contractors Bonding and Insurance Company ("CBIC") pursuant to a Stock Purchase Agreement dated December 22, 2010, by RLI Insurance Company, an Illinois-domiciled insurer. On February 4, 2011, at the request of the Commissioner in his letter dated January 19, 2011, the Applicant filed substantial supplemental information to the Form A. While the Applicant had filed an unexecuted Stock Purchase Agreement with the Form A, prior to the hearing date the Applicant filed changes which would be made to that Agreement and as allowed by the undersigned filed the final executed Stock Purchase Agreement on April 21, 2011.

The Applicant proposes to acquire CBIC, a Washington-domiciled property and casualty insurer, which is a wholly owned subsidiary of Data and Staff Service Co. ("DSS"), a Washington stock insurance holding corporation and the ultimate controlling person of CBIC. The Applicant proposes to acquire CBIC by acquiring 100% of the total issued and outstanding shares of DSS, which will include CBIC and subsidiaries of DSS. As a result of the acquisition of all of the issued and outstanding DSS, DSS would become a wholly-owned subsidiary of the Applicant, and CBIC and the other subsidiaries of DSS would become indirect wholly-owned subsidiaries of the Applicant.

RCW 48.31B.015, part of Washington Insurer Holding Company Act, requires that the Commissioner hold a hearing to examine the evidence and determine whether the proposed acquisition of control of CBIC satisfies the applicable statutory criteria required to be met for approval. The Stock Purchase Agreement is expressly conditioned, among other things, upon the approval of the Commissioner. The Applicant has asked that, if approved, the parties would like to close this transaction on April 28, 2011 if possible. Based upon a delegation of authority from the Commissioner, the undersigned handled all parts of this proceeding prior to the hearing, conducted the hearing and made the final decision and entered the final order without input from the Commissioner or his staff or any other individual who has knowledge of the issues herein except as was presented into evidence during the hearing.

### **FINDINGS OF FACT**

Having considered the presentation of the parties including written and oral evidence presented at the hearing, and the documents on file herein, including the Form A: Statement Regarding the Acquisition of, Control of, or Merger With a Domestic Insurer dated and filed with the OIC on December 22, 2010, and the exhibits, supplements and amendments thereto, and the entire hearing file, the undersigned Presiding Officer finds as follows:

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1. The Commissioner has duly and properly appointed the undersigned to conduct the adjudicative proceeding in this matter and to make the final decision herein without communication or input from himself, his staff or any other individuals or entities with knowledge of this proposed transaction. The hearing was duly and properly convened and all substantive and procedural requirements under the laws of the state of Washington have been satisfied.
2. The Applicant is RLI Insurance Company, an Illinois-domiciled property and casualty insurer incorporated in Illinois in 1959, commencing business in 1960, and which is licensed in all 50 states and the District of Columbia. It is a specialty insurance company serving underserved markets, maintaining a diverse portfolio of property and casualty coverages and surety bonds and is rated A+ (Superior) by A.M. Best Company and A+ (Strong) by Standard & Poor's. The Applicant is wholly owned direct subsidiary of RLI Corporation, an Illinois-domiciled stock holding corporation (RLI Corp. - NYSE: RLI) which owns 100% of the voting common stock of Applicant. In turn, Applicant owns 100% of the voting securities of Mt. Hawley, an Illinois surplus lines carrier operating in all 50 states, which owns 100% of the voting securities of the FLIC, an Illinois property and casualty insurer operating in all 50 states except Alaska. In addition, Applicant owns 100% of the voting securities of several entities which do not operate in Washington: RLI Insurance Ltd., a Bermuda corporation; Safe Fleet Insurance Services, Inc., a California corporation; Underwriters Indemnity General Agency, Inc., a Texas corporation; and RLI Underwriting Services, Inc., an Illinois corporation. [Testimony of Michael J. Stone, President & COO of RLI; Form A, Ex. 9, organizational chart of the RLI Group presenting the identities and inter-relationships among the Applicant and all stockholders and affiliates of Applicant. Note that where testimony is referred to throughout this document, at the request of the undersigned each witness also filed written proposed testimony or written declarations which are included in the hearing file in Ex. 1.]
3. Contractors Bonding and Insurance Company is a domestic Washington stock insurance corporation organized under the laws of Washington on October 9, 1979, WA Certificate of Authority No. 1278. CBIC is headquartered in Seattle, WA, and is presently authorized to write general casualty, marine and transportation, property, surety and vehicle lines of business. CBIC is also licensed to conduct property and casualty insurance business in all other 49 states and the District of Columbia. Specifically with regard to its major market, CBIC specializes in surety products and niche property and casualty insurance products, is licensed in all 50 states for surety products and 46 states for property and casualty insurance products and is rated A (Excellent by A.M. Best Company). [Testimony of Robert Kirkpatrick Eland, CFO, Co-Chief Operations Officer and Secretary of CBIC; Testimony of Ronald J. Pastuch.] CBIC is wholly owned by Data and Staff Service Co. ("DSS"), a Washington stock insurance holding corporation and the ultimate controlling person of CBIC.
4. The Applicant proposes to acquire CBIC through acquisition of DSS, which will include CBIC and subsidiaries of DSS. Currently, Donald Sirkin, an individual resident of Washington, maintains control of DSS through his ownership of approximately 96.33% of the voting securities of DSS. The remaining 3.67% of the voting securities is held by Data and Staff Service Co. Employee Stock Ownership Plan (the "DSS ESOP") (together with Mr. Sirkin, the

- “Sellers”). Pursuant to the terms of a Stock Purchase Agreement dated December 22, 2010 by and between Applicant and the Sellers [Ex. 3 to Form A, Stock Purchase Agreement] as amended [Ex. 3 to Form A, Amendment to Stock Purchase Agreement filed April 21, 2011], subject to certain conditions detailed therein, Applicant agrees to purchase all of the issued and outstanding capital stock shares of DSS and the DSS ESOP by paying cash to the shareholders of DSS in the aggregate amount of \$135,900,380. [Testimony of Michael J. Stone, President and Chief Operating Officer of RLI; Written Proposed Testimony of Stone; Ex. 1, Stock Purchase Agreement dated December 22, 2010 w/ Amendment to Stock Purchase Agreement dated April 21, 2011.] The cash will be paid by Applicant in full by wire transfer of immediately available funds on the closing date. The cash will come from a combination of available cash plus funds raised from the sale of securities in its investment portfolio. No financing, loans, or intercompany transfers will be required to raise the cash for the purchase price payment. [Testimony of Stone.]
5. On December 23, 2010, the Applicant properly filed its Form A, dated December 23, 2010, with the Commissioner. Said Form A, which, as later supplemented by filings on February 4, 2011 with exhibits thereto, was filed over 60 days prior to the proposed effective date of the proposed acquisition, and includes substantial information and agreements concerning this proposed acquisition as required, including a copy of their Stock Purchase Agreement dated and filed December 22, 2010 and Amendment to Stock Purchase Agreement dated and filed April 21, 2011. The Applicant requests that approval of this transaction, if granted, be as soon as possible as they seek to complete a closing of this proposed transaction on April 28, 2011, if possible. [Testimony of Stone.]
  6. The subject Form A, with exhibits, and as supplemented, was submitted in the form required by, and contains the information required by, the Commissioner and applicable statutes. [Testimony of Pastuch; Form A.]
  7. After the proposed acquisition and change of control, CBIC will be directly owned by its current parent company (DSS), which will become a subsidiary of RLI Insurance Company, which in turn is owned by RLI Corporation, its public holding company. [Testimony of Stone; Form A.]
  8. After the proposed acquisition and change of control, CBIC would be able to satisfy the requirements for the issuance of a license to write its current lines of business for which it is presently licensed, on the condition that it increase its capital stock from \$2.5 million to \$3.0 million. [Testimony of Pastuch.] The hearing record was left open to receive evidence of this \$500,000 increase in CBIC's capital stock: the undersigned was advised on April 22, 2011 that CBIC had increased its capital stock from \$2.5 million to \$3.0 million. [Letter from R. Kirk Eland, CFO of CBI, to the undersigned dated and filed April 22, 2011 with attached new CBIC Comparative Statutory Balance Sheets Reflecting Increase in Capital Stock, included in Ex. 1.] Therefore, CBIC can now be found able to satisfy the requirements for the issuance of a license to write its current lines of business for which it is presently licensed without condition. [Testimony of Pastuch; Testimony of Eland; Testimony of Daniel O. Kennedy, Vice President, General Counsel and Asst. Corporate Secretary of Applicant.]

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9. The effect of this proposed acquisition of control would not be to substantially lessen competition in insurance in the State of Washington or to create a monopoly therein. [Testimony of Pastuch; Testimony of Eland; Testimony of Kennedy.]
10. The financial condition of the Applicant is not such as might, after completion of the proposed acquisition, jeopardize the financial stability of CBIC or prejudice the interests of CBIC's policyholders. [Testimony of Pastuch; Testimony of Eland; Testimony of Kennedy.]
11. After completion of this proposed acquisition, the Applicant has no plans or proposals to liquidate CBIC, sell its assets, consolidate or merge it with any person, or make any other material change in its business or corporate structure or management which are unfair or unreasonable to policyholders of CBIC or are not in the public interest. The Applicant intends that CBIC will continue conducting its business and operations substantially as presently conducted except that Mr. Sirkin would not remain with CBIC or DSS. The Applicant has no current plans to change the name of FBIC or relocate its home office or its corporate records. [Testimony of Kennedy; Testimony of Eland; Testimony of Pastuch.]
12. It cannot be found that the competence, experience and integrity of those persons who would control the operation of the CBIC after the proposed acquisition are such that it would not be in the interest of the policyholders of CIBC or of the public, to permit this proposed acquisition of control. [Testimony of Pastuch; Testimony of Kennedy; Testimony of Eland.]
13. It is not likely that this proposed acquisition is hazardous or prejudicial to the insurance-buying public. [Testimony of Pastuch; Testimony of Kennedy; Testimony of Eland.] After completion of this proposed acquisition, all rights and privileges of the policyholders of CBIC will remain the same as they are at this time. [Testimony of Kennedy; Testimony of Eland.]
14. The Applicant and Seller submitted completed Notification and Report Forms from all parties with respect to this proposed acquisition to the Premerger Notification Office of the Federal Trade Commission and to the Antitrust Division of the Department of Justice, as required. By letters to the Applicant and Sellers dated January 7, 2011, from the Federal Trade Commission of behalf of itself and apparently also the Antitrust Division of the Department of Justice, the waiting period expired on February 7, 2011 and those agencies have no concerns about this proposed transaction. [Testimony of Kennedy; Testimony of Eland; Letters from Federal Trade Commission dated January 7, 2011 filed April 21, 2011 at request of the undersigned and included in Ex. 1.]
15. The Notice of Hearing on the Proposed Acquisition herein [Ex. 1], which contains information concerning this proposed acquisition and the hearing thereon, was published in its entirety on the Commissioner's website commencing on May 15, 2007 and continuously since that date. [Testimony of Pastuch; Declaration of Ronald J. Pastuch with attached Exs. A and B.]
16. As indicated in the Notice of Hearing herein [Ex. 1, pgs. 4 and 5], all interested parties were given the opportunity to submit any comments on, or objections to, this proposed acquisition up

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until April 19, 2011 at 5:00 p.m. PST to the undersigned by fax, U.S. mail, or personal delivery or email. All interested parties were also advised therein that they would be given the opportunity to participate in the hearing by telephone and/or present evidence at hearing and to examine and cross-examine witnesses and offer oral and written arguments, and in connection therewith to conduct discovery proceedings. No communications of any kind were received from outside parties by the Applicant or by CBIC. [Testimony of Kennedy; Testimony of Eland.] Further, no such communications were received by the Commissioner. [Testimony of Pastuch; Declaration of Pastuch.] Further, no such communications were received by the undersigned or her assistants. Based upon this evidence, it is here found that reasonable notice of the hearing herein was given and that no reasonable objection to this proposed acquisition exists.

17. Ronald J. Pastuch, Holding Company Manager in the Company Supervision Division of the Office of Insurance Commissioner, testified on behalf of the Insurance Commissioner. Mr. Pastuch presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
18. Daniel O. Kennedy, Vice President, General Counsel and Asst. Corporate Secretary of the Applicant, RLI, testified on behalf of the Applicant. Mr. Kennedy presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
19. Michael J. Stone, President and Chief Operating Officer of RLI testified on behalf of the Applicant, RLI. Mr. Stone presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
20. Robert Fitzpatrick Eland, Chief Financial Officer, Co-Chief Operations Officer and Secretary of CBIC as well as one of its directors (and a director and the CFO, Sec. and Asst. Treasurer of Data and Staff Service Co. which is the parent company of CBIC, and who is also a director and the Secretary of several subsidiaries of Data and Staff Service Co. other than CBIC), testified on behalf of CBIC. Mr. Eland presented his testimony in a clear, detailed and credible manner and exhibited no apparent biases.
21. Based upon the above Findings of Facts, it is here found that there exists no basis for denial of the Applicant's request for approval of its proposed acquisition of control of Contractors Bondint and Insurance Company and that therefore it is reasonable that this proposed acquisition and change of control be approved effective immediately. The parties should be granted the authority to close this transaction as soon as they determine to be suitable.

**CONCLUSIONS OF LAW**

1. Pursuant to Title 48 RCW and specifically RCW 48.31B, the Washington State Insurance Commissioner has jurisdiction over the plan of acquisition and change of control of Contractors Bonding and Insurance Company (CBIC). Further, the undersigned has been properly delegated the authority to handle all prehearing matters regarding this adjudicative proceeding,

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to conduct the proceeding, to review and consider all documents and evidence presented and to make the final determination herein.

2. Based upon the above Findings of Fact, the Applicant properly filed the preacquisition notification, Form A, sufficiently before the requested effective date of this proposed acquisition, as required by RCW 48.31B.015(1) and such preacquisition notification, Form A, contains the information required by RCW 48.31B.015(2).
3. Based upon the above Findings of Fact, after the proposed acquisition and change of control, CBIC will continue to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed, as contemplated by RCW 48.31B.015(4)(a)(i).
4. Based upon the above Findings of Fact, and considering the application of the competitive standard in RCW 48.31B.015(4)(a)(ii), it cannot be found that the effect of this proposed acquisition and change of control of CBIC would be substantially to lessen competition in insurance in this state or tend to create a monopoly therein, as contemplated by RCW 48.31B.015(4)(a)(ii).
5. Based upon the above Findings of Fact, the financial condition of the Applicant, RLI, is not such as might jeopardize the financial stability of CBIC, or prejudice the interest of its policyholders, as contemplated by RCW 48.31B.015(4)(a)(iii).
6. Based upon the above Findings of Fact, the Applicant, RLI, has no plans to liquidate CBIC, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management which are unfair and unreasonable to policyholders of CBIC or which are not in the public interest, as contemplated by RCW 48.31B.015(4)(a)(iv).
7. Based upon that above Findings of Fact, the competence, experience and integrity of those persons who will control the operation of CBIC are not such that it would not be in the interest of policyholders of CBIC or of the public to permit this proposed acquisition and change of control of CBIC, as contemplated by RCW 48.31B.015(4)(a)(v).
8. Based upon the above Findings of Fact, the proposed acquisition and change of control of CBIC by the Applicant, RLI, is not likely to be hazardous or prejudicial to the insurance-buying public, as contemplated by RCW 48.31B.015(4)(a)(vi).
9. Based upon the above Findings of Fact, reasonable notice of this proposed acquisition was given to the public, and no reasonable objections exist.
10. The provisions of the Insurance Code of the State of Washington, Chapter 48.31B RCW, and specifically RCW 48.31B.015 governing the approval of proposed acquisitions, have been met and it cannot be found that there are any bases for disapproval of this proposed acquisition. Therefore, pursuant to Chapter 48.31B RCW, and specifically RCW 48.31B.015, the

Applicant's request for the approval of its proposed acquisition and change of control of CBIC is granted.

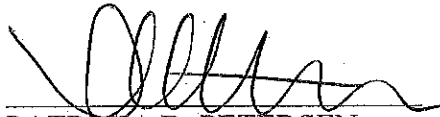
**ORDER**

On the basis of the foregoing Findings of Facts and Conclusions of Law, to the effect that the statutory criteria for approval of this proposed acquisition and change of control have been met, and to the effect that approval of this proposed acquisition and change of control should be granted,

**IT IS HEREBY ORDERED** that the application of RLI Insurance Company for the Washington State Insurance Commissioner's approval of its proposed acquisition and change of control of Contractors Bonding and Insurance Company from the Sellers, Donald Sirkin and Data and Staff Service Co. Employee Stock Ownership Plan, owners of the parent company of Contractors Bonding and Insurance Company, upon the terms included into evidence in this proceeding, is **GRANTED** effective immediately. The parties may close this transaction as soon as they determine suitable.

This Order is entered pursuant to Title 48 RCW and specifically RCW 48.31B.015, Title 34 RCW, and regulations applicable thereto.

ENTERED at Tumwater, Washington, this 26<sup>th</sup> day of April, 2011.



PATRICIA D. PETERSEN  
Chief Hearing Officer  
Presiding Officer

Declaration of Mailing

I declare under penalty of perjury under the laws of the State of Washington that on the date listed below, I mailed or caused delivery through normal office mailing custom, a true copy of this document to the following people at their addresses listed above: J. Michael (RLI); D. Kennedy (RLI); M. Tract (Katten Muchin Rosenman); M. Sorenson and T. Parker, Esq.'s (Carney Badley Spellman, PS); S. Keyvan, Esq. (Sidley Austin LLP); and M. Kreidler, M. Watson, J. Odiorne, C. Sureau, C. Brown and R. Pastuch (OIC).

DATED this 26<sup>th</sup> day of April, 2011.

  
SHELLIE SAVAGE